

Message Text

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PAGE 01 WELLIN 02784 050138Z

20

ACTION EA-14

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8609

INFO AMEMBASSY CANBERRA

UNCLAS WELLINGTON 2784

EO 11652: NA

TAGS: EFIN, NZ

SUBJECT: MOREGNZ STEPS TO COUNTER INFLATION AND FOREIGN EXCHANGE

LOSSES

REF A) WELLINGTON 2509 B) WELLINGTON 2531

1. MINIMUM DOWN PAYMENT ON NEW AND SECOND HAND CARS AND LIGHT TRUCKS WAS RAISED 10 PER CENT TO 60 PERCENT ON SEPTEMBER 3.

2. THE TIME PAYMENT PERIOD ON NEW CARS AND LIGHT TRUCKS HAS BEEN SHORTENED FROM 24 MONTHS TO 12. FOR USED CARS AND LIGHT TRUCKS THE PERIOD HAS BEEN REDUCED TO 18 MONTHS.

3. DOWN PAYMENT ON MOTORCYCLES HAS JUMPED FROM ONE-THIRD TO 60 PERCENT AND THE TIME PAYMENT PERIOD HAS BEEN HALVED TO 12 MONTHS.

4. ADVANCE PAYMENT FOR CAR RENTAL LEASE AGREEEMTNS HAS BEEN INCREASED FROM 15 TO 25 PERCENT OF THE CASH PRICE OF VEHICLE.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 WELLIN 02784 050138Z

5. MIN OF TRADE AND INDUSTRY SAID PURPOSE WAS

TO REDUCE CASH DEMAND FOR CAR BUYING SO FINANCE COMPANIES COULD INCREASE THEIR LENDING IN MORE PRODUCTIVE AREAS. THGHTER TIME PAYMENT CREDIT ON NEW VEHICLES VS. SECONDHAND WAS TO REDUCE PRESSURE ON BALANCE OF PAYMENTS.

6. SPOKESMEN OF THE MOTOR CAR INDUSTRY, ALREADY HIT BY INCREASD TAXES ON LARGER MODELS OF CARS (SEE REFTELS), HAVE EXPRESSED CONCERN OVER THE FAR-REACHING EFFECTS OF THESE MEASURES ON THE INDUSTRY.

7. IN PURSUIT OF GNZ'S POLICY TO FINANCE NZ'S CURRENT ACCOUNT ADVSERSE TRADE BALANCE THROUGH FOREIGN LOANS, RESTRICTIONS ON FINANCE COMPANY BORROWING ABROAD WERE LIFTED IN MID-AUGUST. SO FAR THE REACTION HAS BEEN UNENTHUSIASTIC, PARTLY BECAUSE OF THE PRESSURE HIGHER FOREIGN INTEREST RATES FOR SUCH LOANS WOULD PUT ON LOCAL LENDING. HOWEVER, THERE HAVE BEEN OTHER LOAN NEGOTIATIONS WITH PRIVATE INTERESTS WHICH ARE DEVELOPING SOME FOREIGN EXCHANGE, FOR EXAMPLE FLETCHER HOLDINGS LIMITED WHICH IS NEGOTIATING FOR A \$NZ21.5 MILLION LOAN. OTHER SUCH NEGOTIATIONS BY PRIVATE COMPANIES HAVE BEEN VARIOUSLY REPORTED FOR SOMEWHAT SMALLER AMOUNTS. THERE IS ALSO A REPORT THAT GNZ IS CONSIDERING A 5 YEAR \$NZ13 MILLION SWISS FRANC PRIVATE PLACEMENT NOTE ISSUE FOR 9 PERCENT IN ZURICH. AIR NEW ZEALAND HAS CONCLUDED A EUROCURRENCY BANK CONSORTIUM LOAN AGREEMENT TALLING \$US11 MILLION TO MAKE ITS PREDELIVERY PAYMENTS ON 3 DC 10 JET AIRCRAFT.

8. GNZ RECENTLY STATED IN PARLIAMENT THAT A TOTAL OF \$NZ187 MILLION IN LOAN AND EQUITY CAPITAL HAD BEEN APPROVED IN THE LAST SIX MONTHS FOR COMPANIES OPERATING IN NZ. HOWEVER, THERE HAS SO FAR BEEN LITTLE CAPITAL INFLOW RESULTING FROM THIS.

9. GNZ HAS JUST DRAWN A \$45 MILLION TRANCHE FROM THE IMF. THIS DRAWING DOES NOT, HOWEVER, AFFECT THE LEVEL ON NF'S RESERVE HOLDINGS.

UNCLASSIFIED

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PAGE 03 WELLIN 02784 050138Z

10. THERE ARE REPORTS THAT AS A NEXT STEP TO CONSERVE FOREIGN EXCHANGE THE GNZ MAY SOON MOVE TO RESTRICT FUNDS FOR FOREIGN TRAVEL BY NEW ZEALANDERS.

11. THE RESERVE BANK FIGURES FOR THE MONTH OF JULY SHOW A NEGATIVE CURRENT ACCOUNT BALANCE OF \$," 85.6 MILLION OF WHICH MINUS \$NZ51.1 MILLION WAS FRO TRADE (VS. A PLUS \$17.9 MILLION TRADE BALANCE FOR JULY 1973). THIS OUTFLOW

HAS BEEN PARTLY OFFSET BY A NET CAPITAL INFLOW OF
\$NZ63 MILLION WHICH INCLUDED A \$57.5 MILLION DRAW
DOWN ON THE SWISS BASED BANK FOR INTERNATIONAL
SETTLEMENTS LOAN (SEE WELLINGTON'S 2260). THE
FOREIGN RESERVES AS OF THE END OF JULY WERE \$NZ572.5
MILLION, ABOUT 54 PERCENT OF RESERVES HELD IN JULY
1973.
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